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Weekly Highlights and Hot Bites #23

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Report Highlights:

- **BOLSA TUMBLES BY 4.3 PERCENT; WORST FALL IN FOUR YEARS**
- **MEXICO'S GROWING DEPENDENCE ON IMPORTS**
- **MÉXICO AND THE U.S. TO CHANGE DOMESTIC SUGAR PROGRAMS**
- **AMLO PROPOSES REVISIONS OF NAFTA'S AGRICULTURAL CHAPTERS**
- **MEXICO MAY BLOCK U.S. CORN-SYRUP EXPORTS UNTIL 2008**

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

BOLSA TUMBLES BY 4.3 PERCENT; WORST FALL IN FOUR YEARS

Bolsa (Mexican stock exchange) stocks finished 4.3 percent lower on Monday, June 12, 2006, in its worst session since September 2002. The peso also lost ground as investors worried about higher U.S. interest rates, weakening 0.28 percent to 11.425 pesos per U.S. dollar, its lowest level since November 2004. Mexico and other emerging markets have been hit hard in recent weeks by worries that U.S. interest rates could move higher than previously thought. (Source: El Universal; 06/12/2006)

MEXICO'S GROWING DEPENDENCE ON IMPORTS

Although the Mexican Agriculture Secretary forecasted that the complete implementation of NAFTA in 2008 will stimulate the Mexican livestock sector, USDA estimates through 2015 show that Mexico will grow increasingly dependent on grain and meat imports from the United States according to the USDA "Baseline Projections to 2015", Mexican imports of beef, poultry, and pork meats will increase between 62 to 87 percent. The main reason for this increase, similar to other underdeveloped countries, is because demand, resulting from rising per capita income and population growth, will surpass domestic production. Unlike developed countries, economic growth in the developing world leads to drastic changes in food consumption as people upgrade their diets. (Source: El Financiero; 06/14/2006)

MEXICO AND THE U.S. TO CHANGE DOMESTIC SUGAR PROGRAMS

Secretary of Agriculture, Francisco Mayorga, said that Mexico is discussing with the United States how to adapt to the new global sugar market. When asked about the government's recent actions to adjust sugar prices downward, Mayorga indicated that Mexico is not negotiating sugar prices with the U.S. He added that the reduction of subsidies in the European Union and changes in global sugar supplies were factors that were not contemplated during the signing of NAFTA. Therefore, Mexico and the U.S. plan to make adjustments to their domestic sugar programs, but without amending what was signed in the NAFTA. Negotiations with the U.S. on sugar are currently focused on Mexican exports. Mayorga stated that Mexico produces 5.4 million tons of sugar and exports to the U.S. are estimated at more than 600,000 tons this year. On the other hand, USDA Undersecretary JB Penn said in an interview during his visit to Mexico that higher international sugar prices have resulted in a lack of incentive for several countries that supply sugar to the U.S. to continue to ship sugar under the quota. Therefore, there is a possibility that the next U.S. Farm Bill (2007) will dismantle the sugar quota system, which has been the main obstacle for Mexican sugar exports to the United States. (Source: Financiero 06/13, 14/06)

AMLO PROPOSES REVISIONS OF NAFTA'S AGRICULTURAL CHAPTERS

Andres Manuel Lopez Obrador (AMLO) declared that if elected president, he will revise the agricultural chapter under NAFTA — particularly relating to corn and beans— in order to prevent the free entrance of such foreign commodities. Last Friday, Secretary of Agriculture Mayorga stated that he is engaged in an ongoing dialogue with the U.S. on this issue, and will cooperate with the U.S. to ease the transition for Mexican corn and bean farmers. Mayorga was clear to say that Mexico is not looking for a NAFTA renegotiation, but rather is contemplating other mechanisms to cope with the commercial opening. In the same vein USDA Undersecretary J.B. Penn declared that the NAFTA agricultural chapters will not be renegotiated. However, AMLO stated that, "...we will not allow the enforcement of such clauses, we will not allow the destruction of domestic producers, we will protect them. Mexico is first, and then the foreigners." He also promised that the PROCAMPO program would not be eliminated as scheduled, and ensured the continuance of the OPORTUNIDADES program. (Source: REFORMA; 06/14/2006)

MEXICO MAY BLOCK U.S. CORN-SYRUP EXPORTS UNTIL 2008

Mexico has told the U.S. that it will lift its tax on beverages made with high fructose corn syrup by Jan. 1, 2007, but also threatened to impose another barrier that would block U.S. HFCS exports for another year, U.S. Department of Agriculture Undersecretary J.B. Penn said Wednesday. U.S. HFCS producers have been counting on Mexico to remove that tax, paving the way for a resumption of U.S. exports, but Mexico is preparing to throw another wrench in the system to stop that from happening, Penn said in an interview with Dow Jones Newswires. A World Trade Organization panel ruled in early March against Mexico's 20% tax on soft drinks made with HFCS and Mexico has pledged to comply with the ruling by the start of next year. In the U.S, HFCS is a common, cheaper substitute for sugar in soft drinks and other food products. Mexican soft drink bottlers sharply curtailed the use of HFCS after the tax was introduced to protect the country's sugar industry. "There's more to the story," though, Penn said after returning from trade talks in Mexico City last week. He said Mexican officials threatened to impose an ad-valorem duty on HFCS imports immediately after removing the soft-drinks tax. The U.S. would fight Mexico on the ad-valorem duty, Penn said, though he added the issue will become moot on Jan. 1, 2008, when the North American Free Trade Agreement is fully implemented and all trade barriers are scheduled to come down. That is expected to be a substantial boon for U.S. HFCS producers, but may mean U.S. sugar producers will face competition from displaced Mexican sugar, which was previously consumed by the country's soft-drink industry and held in check by U.S. tariffs that will disappear under the NAFTA schedule. (115 Dow Jones 6/14)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX6046	Asparagus Annual	6/14/06
MX6045	Weekly Highlights and Hot Bites #22	6/12/06
MX6044	Weekly Highlights and Hot Bites #21	6/2/06
MX6043	Tomato Annual	5/30/06
MX6042	Weekly Highlights and Hot Bites #20	5/30/06
MX6041	Weekly Highlights and Hot Bites #19	5/19/06
MX6040	Coffee Annual	5/15/06
MX6039	Dairy Semi-Annual	5/15/06
MX6038	Weekly Highlights and Hot Bites #18	5/15/06
MX6037	Cotton Annual	5/12/06

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